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July 27, 2004

Mary Cottrell, Secretary  
Department of Telecommunications and Energy  
One South Station  
Boston, Mass. 02110

RE: NStar Gas, Procurement practices, D.T.E. 04-63 (noticed July 7, 2004) –  
Initial Comment of the Low-Income Parties

Dear Secretary Cottrell:

This letter is filed on behalf of the low-income weatherization and fuel assistance network (described in G.L. c. 25, sec. 19), the Massachusetts Community Action Program Directors Association Inc. (MASSCAP), and the Massachusetts Energy Directors Association (MEDA), including their member agencies. It requests that hearings be held, or at a minimum further comments be received, on the issues set forth below, with a view to setting specific guidelines under the Department's policy in D.T.E. 01-100-A, Risk Management to Mitigate Natural Gas Price Volatility (2002). The low-income parties' principal purpose is to encourage all local gas distribution companies in the Commonwealth to manage their purchased gas portfolio in a manner that reduces customer costs and price instability.

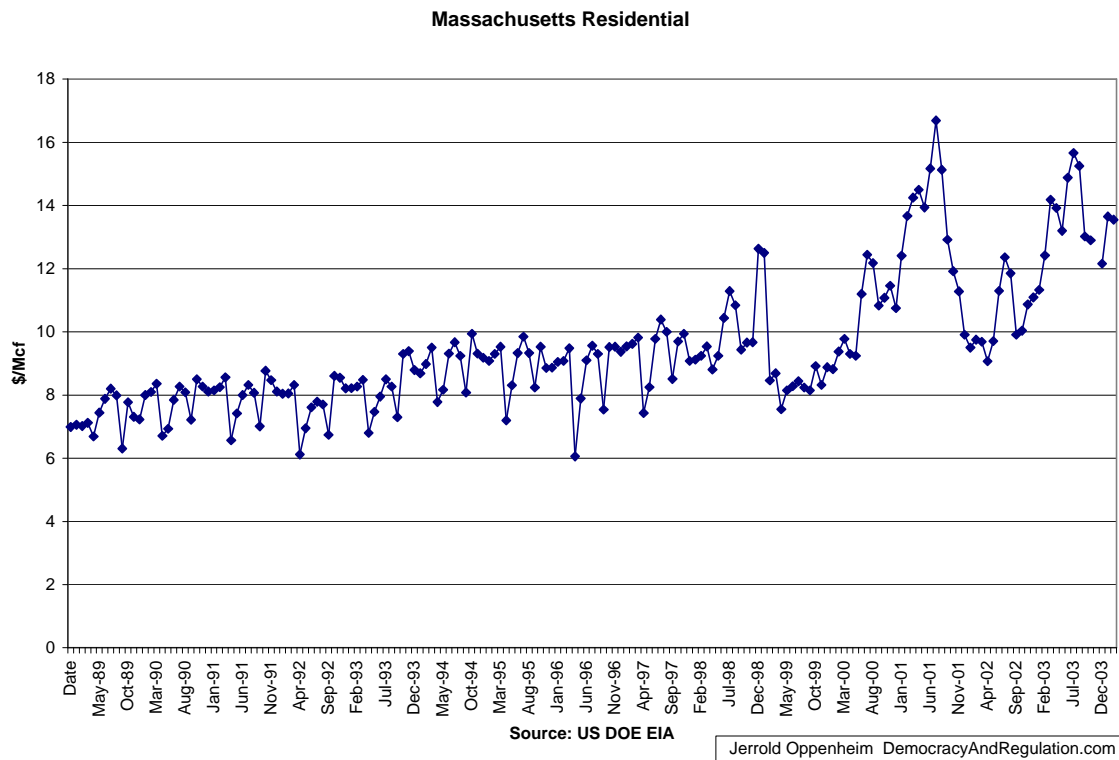
A recent analysis by Economic Opportunity Studies shows that the burden of the cost of home energy on poor households has skyrocketed. Over the past seven years, the percent of household income used to pay natural gas bills has grown from 15.4% in 1997 to 27.0% in 2004, a staggering increase of 75%<sup>1</sup> which is not matched by an increase in income.

At wholesale, gas prices vary monthly and are now much higher and much more volatile than in the past. The difference is shown in the charts below. Since January 2000, for example, Massachusetts residential gas prices fluctuated between \$8.82 and \$16.69 per mcf (price swing of \$7.87, 1.9x), compared to an earlier range of \$6.06-\$10.39 (\$4.33, 1.7x). City Gate prices varied between \$3.14 and \$10.15 (\$7.01, 3.2x), compared to \$2.43-\$6.05

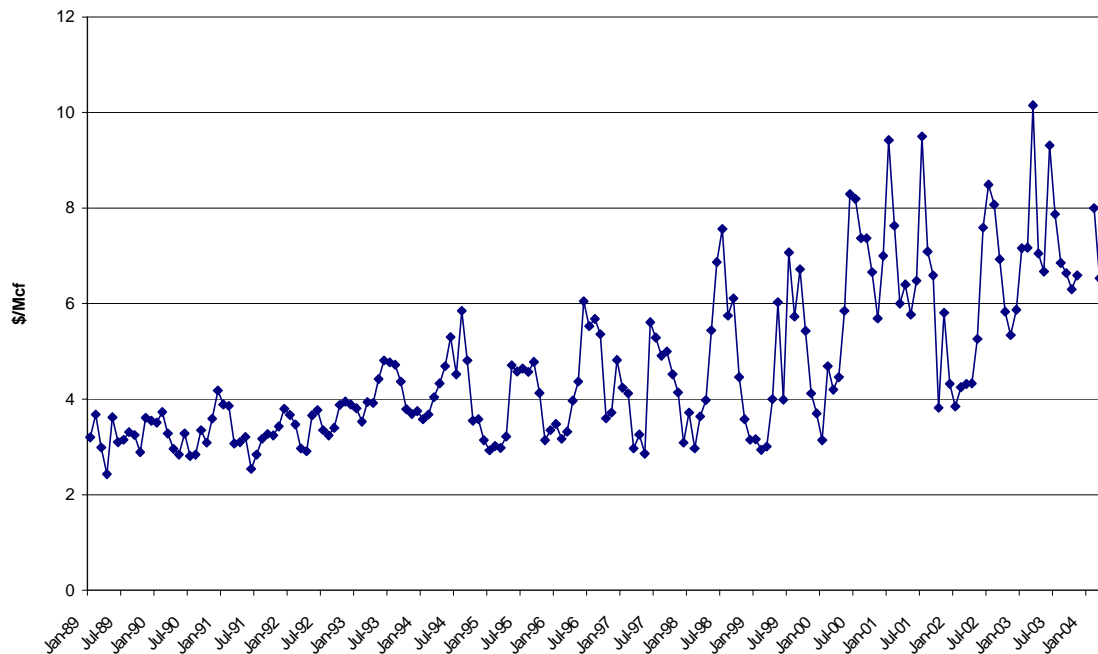
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<sup>1</sup> Meg Power, "Low-Income Consumers' Energy Bills and Energy Savings" at Apdx. 3 (Washington: Economic Opportunity Studies, May 2004).

(\$3.62, 2.5x). In absolute dollars, the pricing swing has almost doubled (1.8x and 1.9x, respectively).<sup>2</sup>



<sup>2</sup> US DOE EIA data, <http://tonto.eia.doe.gov/dnav/ng/hist/n3010ma3m.htm>,  
<http://tonto.eia.doe.gov/dnav/ng/hist/n3050ma3m.htm>.



Source: US DOE EIA

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These increases in price and volatility are very difficult for many residential customers to manage and increasingly impossible for low-income families. This makes the Commonwealth's gas utility natural gas commodity procurement practices far more critical to consumers than in the past since, at the least, utility procurement practices can be planned in a way, such as multi-year laddering of contracts,<sup>3</sup> that smoothes price volatility and thus helps enable consumer payment planning.<sup>4</sup> Boston Gas Co. for example, has adopted a procurement practice of purchasing one-twelfth of its needs each month, using physical purchases. This is an important step in the right direction.

What remains for the Department is to investigate at least the following issues:

1. The value of longer-term purchasing that is longer-term than the one year proposed. A recent news story illustrates the dilemma. At this

<sup>3</sup> See Section 16-244c of the Connecticut General Statutes (*Effective July 1, 2003*), Public Act No. 03-13 (2003) (electricity procurement from 2007).

<sup>4</sup> See, e.g., A. Roschelle *et al.*, Strategies for Procuring Residential and Small Commercial Standard Offer Supply in Maine (Synapse Energy Economics, April 7, 2004), <http://www.synapse-energy.com/Downloads/Synapse-report-me-opa-standard-offer-apr-7-04.pdf>, filed at Maine PSC by Maine Office of Public Advocate (OPA) in Docket 2004-147 (May 28, 2004), together with procurement principles jointly sponsored by OPA and AARP.

moment, NYMEX gas prices for the rest of this year average about \$6.20. The average of NYMEX prices across 2005 are about flat.<sup>5</sup> At the same time, one well-respected consulting firm is predicting a price drop in 2005 (due to a forecast of increased LNG imports, increased natural gas production, and falling oil prices).<sup>6</sup> This consultant performed the avoided gas cost analysis last year for Massachusetts energy efficiency programs and at that time projected a 2005 price of \$5.26. Yet an at-least-equally-respected consulting firm predicts average U.S. prices as high at \$6.62 by 2007 – higher if weather is severe.<sup>7</sup> The obvious dilemma is that any purchasing strategy needs to simultaneously protect consumers against over-purchasing what may turn out to be costly future contracts while protecting consumers from under-purchasing what may turn out to be cheap future contracts. The least-risk solution may be to incorporate a blend of strategies, but effectively doing nothing with respect to contracts past 2005 (*i.e.*, one year) may be the highest risk strategy.

2. Similarly, the value of subjecting all non-storage purchases to a risk mitigation strategy, as, for example, KeySpan does, rather than only half of them.
3. The value of more uniform purchasing practices across the Commonwealth so all customers get the benefit of the most serious thinking about least-cost and least-risk purchasing strategies..
4. Whether the risks of financial purchases instead of physical purchases outweigh any advantages financial purchases may have. This Department recognizes that financial instruments impose costs that may not be appropriate in specific instances and that therefore require specific review.<sup>8</sup>
5. Whether the specific details of the Company's proposal meet the Department's standard of being "reasonably designed to meet the objective of price stability."<sup>9</sup> We note in this context that the Department also requires that a proposed method of cost recovery (including review) be included in any risk mitigation proposal.<sup>10</sup>

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<sup>5</sup> [www.nymex.com](http://www.nymex.com)

<sup>6</sup> "Consultants differ on where gas prices are headed," *Restructuring Today* at 3 (July 15, 2003); Fact sheet on *Fuel and Emissions Market Outlook 2004*, [www.icfconsulting.com](http://www.icfconsulting.com) at <http://www.icfconsulting.com/Markets/Energy/Marketing/so2-compliance.asp>.

<sup>7</sup> "Consultants differ on where gas prices are headed," *Restructuring Today* at 3 (July 15, 2003). The firm is Cambridge Energy Research Associates (CERA).

<sup>8</sup> Risk Management to Mitigate Natural Gas Price Volatility, D.T.E. 01-100-A, at 5-8, 15 (2002).

<sup>9</sup> Risk Management to Mitigate Natural Gas Price Volatility, D.T.E. 01-100-A, at 16 (2002).

<sup>10</sup> Risk Management to Mitigate Natural Gas Price Volatility, D.T.E. 01-100-A, at 28 (2002).

The answers to these questions are not obvious and therefore require the sort of public investigation for which this Department is uniquely suited.

Wherefore, the low-income weatherization and fuel assistance network, the Massachusetts Community Action Program Directors Association Inc., and the Massachusetts Energy Directors Association, including their member agencies, respectfully request that the Department set hearings or a further schedule for comments in this proceeding, in order to address the issues raised in this Comment.

Respectfully submitted,

The low-income weatherization and fuel assistance network, Massachusetts  
Community Action Program Directors Association Inc., Massachusetts  
Energy Directors Association,  
By

Jerrold Oppenheim

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